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The Summit: Politics "Unavoidable"

The seven-nation London summit ended with few results but lingering political implications. Organized to discuss common solutions to global economic problems, the meeting forced leaders to focus attention on other political problems, and future meetings are likely to concentrate increasingly on such issues.

Among the major events of the tenth annual gathering were statements of democratic values and communiques on terrorism and East-West relations. Much of the language was toned down at the insistence of various participants, but the relative unity was important for the seven nations, whose relations have frequently been strained by economic disputes in recent years.

against the French franc, 0.3 percent against the Swiss franc, 0.1 percent against the West German mark, and 0.7 percent against the Canadian dollar.

Why? One could be cynical and blame the yen's decline on the yen-dollar working group report issued by the two governments at the end of May. The United States has been pushing for the removal of barriers to Japanese capital markets to make the yen a more international currency (i.e. more desired by non-Japanese portfolio managers), and thereby encouraging it to strengthen. The Japanese have responded that interest rate disparities caused by high U.S. interest rates mean that liberalization of capital markets will only result in a greater outflow of capital, pushing the yen down rather than up. The weakness of the yen in May could be in part the result of some of the liberalization measures that have already been instituted. While that is a possibility, the changes that went into effect in April simply could not have had much of an impact, and no other reforms were implemented in May.

Even without further liberalization, capital flows in and out of Japan rather freely, and the balance-of-payments statistics for April (released at the end of May) underscore that fact. While Japan had a record current-account surplus of $3.5 million in April, net long-term capital outflow was an even larger record $4.4 billion and the trend is likely to have continued in May.

Behind the increased capital outflow, interest rate differentials between the two countries have been widening again. Interest rates in Japan rose a bit, in a range of 0.1-0.4 percentage points for short-term financial instruments, and 0.4 percentage points for the long-term bond index. In contrast, interest rates in the United States rose by 0.4-0.9 percentage points during the month, and Eurodollar rates (LIBOR) were up close to one percentage point. With the differential widening, and forecasts about future interest rate increases in the United States, the weakness of the yen was a natural outcome.

Edward Lincoln

Japan's Progress on ODA Goals

Responding to the complaints of developing countries, Japan's official development assistance (ODA) in 1983 rose a solid 24.4 percent over the previous year, according to preliminary data released by the Ministry of Foreign Affairs. The government disbursed Y893.3 billion ($3.8 billion at Y238=$1) in 1983, placing it third in absolute dollar terms among members of the Organization for Economic Cooperation and Development (OECD). Total assistance in 1983 amounted to a record 0.33 percent of the country's gross national product, though this figure still compares poorly with some other OECD countries. The Foreign Ministry data is summarized in the following table.

Last year's increase ended a two-year decline -- ODA dropped 4 percent in 1981 and 4.7 percent in 1982 -- but still falls short of 1980's 25.3 percent hike. In yen terms, total ODA was up 18.6 percent, with a 2.3 percent dip in bilateral aid (a 17.7 percent rise in bilateral grants offset by a 12.6 percent drop in development lending and capital). The shift in bilateral ODA toward grants and technical assistance might have been prompted by the difficulties

facing developing countries because of the recession and high U.S. interest rates. Multilateral assistance grew 94.3 percent (grants were up 12.2 percent and capital subscriptions jumped 146.3 percent). Since 1981, Japan has spent $9.95 billion on aid -- not quite halfway to the target of $21.36 billion by 1985.

Japan's Net ODA Disbursements in 1983*
(in millions of dollars)

	1982	1983	Increase
Bilateral ODA	$2,367	$2,425	2.4%
Grants	805	993	23.4
Capital Assistance	412	535	29.8
Technical Assistance	393	458	16.6
Development Lending and Capital	1,562	1,432	-8.3
Multilateral ODA	656	1,336	103.6
Grants	260	306	17.5
Capital Subscription and Similar Payments	401	1,035	158.2
Concessional Lending	-5	-4	**
Total	3,023	3,761	24.4
Percentage of GNP	0.29	0.33	

* Preliminary data.
** Not calculable.

Source: Ministry of Foreign Affairs.

Contributions of $648 million to the International Development Association (IDA), part of the World Bank, and $300 million to the Asian Development Bank (ADB) constituted much of the large increase in capital subscriptions. (In 1982, Japan made no contribution to IDA, but subscribed $153 million to the ADB.) Multilateral assistance rose to 35.3 percent of total ODA in 1983, up sharply from 1982's 21.7 percent.

According to a Foreign Ministry spokesman, Japan will have to increase its ODA outlays by 31.1 percent in 1984 and 1985 in order to meet the 1981-1985 goal. A major question is how it intends to do that. Foreign Minister Shintaro Abe reaffirmed the government's commitment to this target, but at the same time admitted that it will be very difficult to achieve -- an understatement given the 9.7 percent increase in the FY 1984 budget for ODA.

Jon Choy

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The views expressed in this reports are those of the authors and do not necessarily represent those of the Japan Economic Institute.